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Progress of the Sino-Japanese Conflict

BY DAVID H. POPPER

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with the aid of the Research Staff of the Foreign Policy Association

TEN months after its outbreak on July 7, 1937, the Sino-Japanese war is reaching what appears to be a crucial stage. Japan has been superficially successful in carving out two great enclaves: one of almost 300,000 square miles in North China, and a smaller one of 30,000 square miles along the lower Yangtze. Now it has launched a supreme offensive designed to crush the enemy forces whose presence has thus far rendered the union of these two areas impossible, and then, perhaps, to annihilate the principal military base and seat of government of the Chinese at Hankow. The conflict has taken on the aspect of a great modern war. At a rough estimate, three million Chinese are opposed by an incomparably better disciplined, equipped and commanded force of at least 500,000, while about 300,000 more—the flower of Japan's manhood—are held in reserve in Manchoukuo, on guard against possible Soviet intervention.

For civilians in the war area, too, the struggle has assumed immense proportions. Sixteen million Chinese are said to have fled before the advancing Japanese in Central China alone. Hundreds of thousands have sought succor in refugee camps.¹ Flood, famine and pestilence threaten to engulf the disorganized, quasi-anarchical regions through which the battle lines have passed. The material destruction has been tremendous—enhanced, as it is, by the Chinese "scorched earth" policy of leaving nothing but charred ruins for the invaders, and by the Japanese policy of destroying villages where guerrillas might find sustenance. A careful estimate for Shanghai alone fixes the tangible property losses at over \$250,000,000 (U.S.).² The damage sustained by trade, business and agriculture in the

war areas is incalculable; and the direct and indirect cost of the hostilities to Japan, although less apparent at first glance, is likewise staggering.

Confronted with this grim vista, the government of the Kuomintang has surprised many of its critics—including the Japanese—by maintaining its unity and even increasing its cohesion. It has accepted the challenge of its opponent in a dignified and unwavering manner. Despite the corruption and inefficiency of some old-line officials,³ and pressure from individuals favoring compromise with Japan, it has survived military defeat and the loss of its metropolis, its capital, and most of its revenues. Since the establishment of a Kuomintang-Communist united front, formally consummated in September 1937—under which the Soviet government in Shensi has been dissolved and the Communist army of 100,000 placed under the command of Nanking—authority has been centralized in the hands of Chiang Kai-shek and the military leaders of the Kuomintang.⁴ At the same time a significant revival of the activities of minority parties, particularly the Chinese Communists, has been sanctioned.⁵ Incipient rebellion in peripheral provinces—Szechuan, Kwangtung and Yunnan—has been kept under control.⁶ Backsliding military officers, even of the rank of Han Fu-chu, ex-Governor of Shantung, have been executed or imprisoned.⁷ The solidarity of a modern national state is being developed in the struggle.

While prosecuting the war, the Chinese government has shown abundant willingness to submit the issues to peaceful settlement. It has stood on its

1. In Shanghai alone, one million Chinese streamed into the International Settlement when the fighting began in August. In December, 400,000 were still in refugee camps there. *The Times* (London), August 18, 1937; Great Britain, House of Commons, *Parliamentary Debates*, Fifth Series (London, His Majesty's Stationery Office, 1937), Vol. 330, p. 1575.

2. A. Bland Calder, "Shanghai's Business and Property Losses Estimated," *Commerce Reports* (Washington), April 2, 1938, p. 318.

3. Cf. *Christian Science Monitor*, April 2, 1938.

4. Cf. *North-China Herald* (Shanghai), September 29, 1937; Edgar Snow, "'Red' Greetings to Nippon," *The New Republic* (New York), May 11, 1938.

5. Notably by the National Congress of the Kuomintang, which concluded its sessions at Hankow on April 2, 1938. Cf. *New York Times*, April 3, 4, 5, 11, 14, 1938.

6. *Ibid.*, March 28, 1938; *Oriental Economist* (Tokyo), February 1938, p. 73.

7. Cf. *China Weekly Review* (Shanghai), January 29, 1938, p. 229; January 22, 1938, p. 201.

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indisputable legal right to the preservation of its territorial integrity and political independence, under the Nine Power Treaty and the Covenant of the League of Nations.⁸ Chiang Kai-shek has continually reiterated his determination to fight on at least until restoration of the *status quo ante* and the evacuation of Japanese troops from Chinese soil.⁹

As the scope and duration of the conflict have been extended, the Japanese government has gradually been placed on a war footing.¹⁰ Conduct of the war has been vested in the hands of an Imperial Headquarters, composed of military and naval officers, which has exercised the supreme military command since its establishment on November 20, 1937.¹¹ The first Imperial Conference since 1914, held by the highest military and civilian leaders in the presence of the Emperor, was convoked on January 11, 1938.¹² It was unofficially reported that, in preparatory conversations, high-ranking officials debated the advisability of a formal declaration of war on China by the Conference. The decision was apparently in the negative—doubtless because the advantages to be gained in throttling the supply of foreign munitions to China would be more than offset by application of the trade and credit restrictions of the United States Neutrality Act and the possibility of League sanctions against Japan under Article XVII of the Covenant. Despite the absence of war in a legal sense, the drift toward a thoroughgoing wartime organization of all civilian life continues. On March 24, 1938 a National Mobilization Law was finally passed after long debate by a strongly critical Diet.¹³ Some of its provisions, applied on May 5 because of the serious military situation, give the government sweeping powers over the nation's economic life and go far to complete the evolution of the Japanese state into a totalitarian régime.¹⁴

Japan's war aims, too, have become more drastic as hostilities drag on. At first they were limited to settlement of the Lukouchiao incident and increased influence over local government in North China.¹⁵ It is evident that in July 1937 many Jap-

anese business men and statesmen, and even part of the army, had no heart for hostilities on any considerable scale.¹⁶ With the outbreak of fighting in Shanghai, however, the policy of "local settlement and non-aggravation" gave way to a far more comprehensive objective: "the stabilization of East Asia through conciliation and cooperation between Japan, Manchoukuo, and China for their prosperity." A "firm and decisive blow" was to be struck against the Chinese government so that China might "mend her ways" and aid in the great Japanese mission of "establishing peace in the Orient."¹⁷ In other words, Japan is now striving to create a dominant politico-economic bloc in Eastern Asia under its own leadership. Following the collapse of negotiations for settlement of the conflict by mediation at the beginning of 1938, the Japanese announced on January 16 that, although they would respect the territorial integrity and sovereignty of China as well as foreign rights and interests, they would "cease henceforth to deal" with the government of Chiang Kai-shek. Instead, they would "look forward to the establishment and growth of a Chinese régime with which unanimous co-ordination can really be counted upon."¹⁸ The "basic conditions" set forth by the Japanese government during the efforts at mediation—which, it is stated, will be demanded in negotiations with whatever puppet régime Japan selects—were as follows:

"1. China to abandon her pro-Communist and anti-Japanese and anti-Manchoukuo policies to collaborate with Japan and Manchoukuo in their anti-Commintern [*sic*] policy.

"2. Establishment of demilitarized zones in the necessary localities, and of a special régime for the said localities.

"3. Conclusion of an economic agreement between Japan, China and Manchoukuo.

"4. China to pay Japan the necessary indemnities."¹⁹

Japan's immediate object, then, is the destruction of the government of the Kuomintang.²⁰ Even if

8. For a collection of statements setting forth the Chinese position, cf. "Documents Concerning the Sino-Japanese Conflict," *China Reference Series*, Vol. 2, January 28, 1938 (New York, Trans-Pacific News Service).

9. *Ibid.*, pp. 3-4; interview with John Gunther, *New York Times*, April 7, 1938.

10. Internal developments in Japan will be discussed in a forthcoming issue of *Foreign Policy Reports*.

11. Cf. *Japan Weekly Chronicle* (Kobe), November 25, 1937, p. 690.

12. *Ibid.*, January 20, 1938, p. 73.

13. *Ibid.*, March 31, 1938, p. 393.

14. Wilfrid Fleisher, *New York Herald Tribune*, May 4, 1938.

15. T. A. Bisson, "Origins of Sino-Japanese Hostilities," *Foreign Policy Reports*, March 1, 1938.

16. E. C. Carter, "Before the War in China," *International Affairs* (London), November-December 1937, pp. 835ff.

17. Cf. texts of speeches of Prime Minister Konoye and Foreign Minister Koki Hirota, before the seventy-second session of the Diet, September 5, 1937. *Contemporary Japan* (Tokyo), December 1937, pp. 559-63.

18. Text of statement in *Japan Weekly Chronicle*, January 20, 1938, p. 71.

19. Quoted from text of address by Koki Hirota before the Diet, January 22, 1938, *Contemporary Japan*, March 1938, p. 785; cf. also his statement of February 1, 1938, *Japan Weekly Chronicle*, February 10, 1938, p. 170.

20. It was reaffirmed by Premier Konoye on April 21, 1938. *New York Times*, April 22, 1938.

the utterances of extremists—some of them far broader in scope—are entirely disregarded, it is clear that Japan is playing for the highest stakes: a closed economic preserve ruled by a subservient Chinese régime. Chiang Kai-shek's China is fighting for its life.

THE NORTH CHINA FRONT

Within a month after the initial incident at Lukouchiao, the Japanese were in effective command of the Peiping-Tientsin area.²¹ While Japanese troops poured into the zone of hostilities,²² preparations were made for a campaign to extend Japan's control southward and westward. By pushing south along the two railways leading toward Hankow and Nanking, the Japanese could secure the keys to the North China provinces. In the west, a drive into Shansi and Inner Mongolia would safeguard the right flank of Japan's army and sever easy communications between the U.S.S.R. and Nanking. It would also, in a broader sense, turn the flank of the Soviet military stronghold in Eastern Siberia and of the Soviet sphere of influence in Outer Mongolia. These, it seems reasonable to conclude, were the objectives to be sought before the arrival of winter.

The road to the west was opened on August 28 with the capture of Nankow Pass, a strategic gateway to Inner Mongolia, after a 16-day battle in which Japanese troops of the Kwantung Army—the Japanese army in Manchuria—descended from the north to threaten the rear of the Chinese defenders.²³ A rapid advance southwestward along the Peiping-Suiyuan railway followed. Tatung, in northern Shansi, was occupied on September 13 and became a principal base for further incursions.²⁴ At this point the Japanese forces were divided. Aided by Mongolian cavalry, several columns drove quickly westward past the terminus of the Peiping-Suiyuan road at Paotow.²⁵ Other troops struck southward toward Taiyuan, the capital of mountainous Shansi province. Here progress was difficult. The Eighth Route Army—formerly the Chinese Communist forces—and Shansi provincial troops took full advantage of the terrain, not only to interpose direct frontal resistance to the Japanese advance, but also to use guerrilla tactics

which were effective in temporarily cutting lines of communication. The hard-pressed invaders finally captured Taiyuan on November 9, with the aid of a column dispatched from Hopei province along the railway leading into the city from the east.²⁶ Although the Japanese took positions far to the south and west of the provincial capital, they have been harried continually by guerrilla attacks from the bases of the Eighth Route Army in north Shansi.²⁷ These attacks, coupled with the need for additional forces on the Shantung front, have forced the invaders to abandon the conquered regions in southern Shansi.

Meanwhile, a rapid onslaught against inferior Chinese provincial troops, begun on September 10, opened the way to the south along the Peiping-Hankow and Tientsin-Pukow railways. Advancing by a series of encircling or flanking movements, the Japanese on September 24 announced the capture of Paoting on the former and Tsangchow on the latter route—the keystones of the prepared Chinese defenses in Hopei province.²⁸ Japanese forces on both lines soon neared the Yellow river, penetrating into Honan and Shantung. By mid-November they were massed along the north bank, opposite Tsinan. Here they halted without further trespass on the domain of the Shantung war lord, Han Fu-chu, who despite repeated protestations of loyalty to Nanking appeared to be striving to preserve the neutrality of his province.

THE YANGTZE CAMPAIGN

In view of the military burden involved in subjugating the territory north of the Yellow river, Japan might well have preferred to limit the theater of war to this region alone. It was difficult to do so, however, without considerable loss of "face." For Japanese lives and property in ports on the Yangtze river were endangered by bitter Chinese resentment. Temporarily following the dictates of prudence, the Japanese, in an unprecedented move, had closed their consulates and evacuated their nationals from Hankow and other Yangtze ports by August 8.²⁹⁻³⁰ Many Japanese civilians were concen-

21. For a detailed survey of the first month's hostilities, cf. Bisson, "Origin of Sino-Japanese Hostilities," cited; *New Statesman and Nation* (London), December 25, 1937, p. 1095.

22. For estimates on the increasing number of troops involved, cf. *The Times*, August 4, 5, 10, 23, 1937.

23. A.P. dispatch, *New York Herald Tribune*, August 29, 1937.

24. *New York Times*, September 14, 1937.

25. *Ibid.*, October 10, 15, 18, 23, 1937.

26. For a description of this campaign, Cf. *New York Times*, September 21-November 10, 1937.

27. Described in *The Times*, December 14, 15, 1937; and by Chou En-lai, Communist leader, in *Pacific Digest* (Hongkong), March 1938, pp. 39ff.

28. On the importance of such "turning movements," cf. Colonel A. M. Nikolaieff, "The Sino-Japanese Conflict: The First Three Months," *Canadian Defence Quarterly* (Ottawa), January 1938, pp. 202-25.

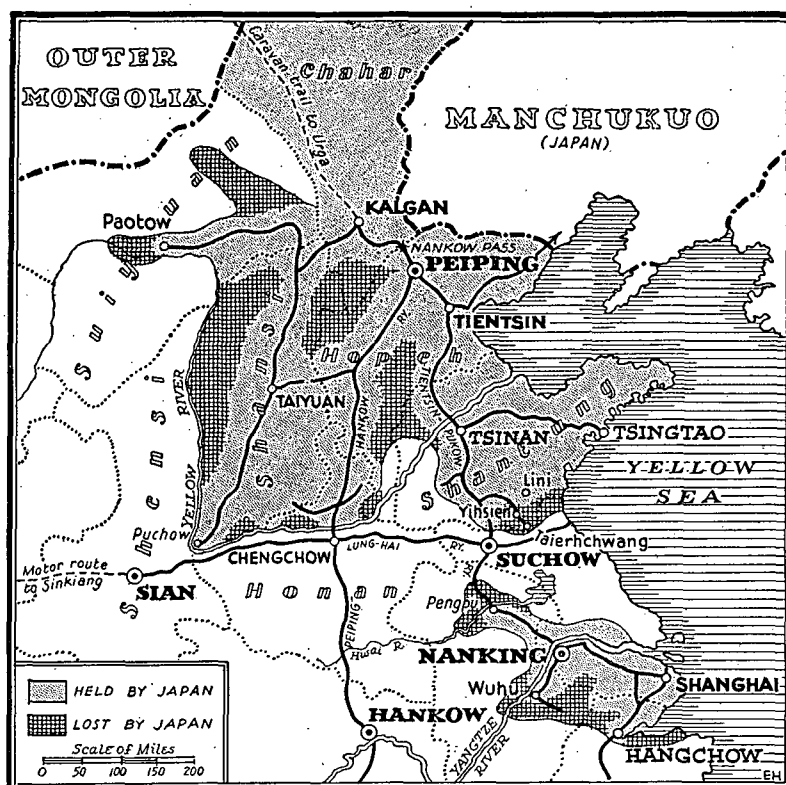
29-30. *The Times*, August 9, 10, 1937. One month later, the total number of Japanese evacuated had risen to over 50,000. Cf. statements of Foreign Minister Hirota and Navy Minister Yonai, *Japan Weekly Chronicle*, September 9, 1937, pp. 351, 353.

trated in Shanghai. Purely military considerations, moreover, provided an additional incentive for beginning hostilities in Central China. To win the North the Japanese would be forced to overcome the resistance of the Nanking government—a step which might best be accomplished by cutting off its economic base at Shanghai and striking at Nanking itself.

In this tense atmosphere a Japanese naval officer, a Japanese seaman and a member of the Chinese Peace Preservation Corps were killed on August 9 near the Hungjao airdrome outside Shanghai, under circumstances which are in dispute.³¹ Both sides expressed willingness to settle the incident by negotiation, but both engaged in troop movements which belied their statements. Some 30 Japanese vessels carrying a naval landing force of several thousand had already reached the vicinity on August 11³²—*prima facie* evidence that hostilities were not altogether unexpected. These forces, the Japanese stated, were being sent to defend Japanese interests. Denouncing the "provocative" attitude of the Chinese, they demanded that the Peace Preservation Corps and all Chinese military effectives be withdrawn at least 30 miles from Shanghai, and that all defenses within this area be dismantled immediately, in accordance with the demilitarization agreement signed on May 5, 1932.³³ The Chinese response was a categorical denial that a foreign power could dictate the movements of Chinese troops in Chinese territory, and the immediate dispatch of some of Chiang Kai-shek's crack, German-trained troops (the Eighty-eighth Division) into the city. The Japanese viewed China's quick acceptance of their challenge as a maneuver to divert forces which would otherwise be concentrated in North China and to increase the risk of Japanese compli-

cations with third powers. Despite the ostensibly conciliatory attitude of the Japanese Cabinet at Tokyo, efforts to secure the withdrawal of both fighting forces from the city came to naught, each side demanding that the enemy retire first.³⁴ From the legal point of view the Chinese were in a fairly strong position. Japan had not only flouted the terms of the Nine Power Pact, but was also violating—as in 1932—the traditional neutrality of the International Settlement by using the Settlement as a base for its military operations.³⁵

Hostilities began on August 13 and were soon in full swing on land and in the air. Doggedly retarding the landing operations of Japanese reinforcements, the Chinese troops held their lines with only tactical withdrawals until the Japanese stormed the strategic village of Tazang on October 26 and the Chinese retreated to the west. It was only then, after Japanese "face" had been preserved by a destructive frontal attack, that the Japanese landed troops at Hangchow Bay, 30 miles south of Shanghai, and executed an easy encircling



Reprinted from New York Times, April 24, 1938

31. For the two versions, cf. League of Nations, "First Report of the Subcommittee of the Far East Advisory Committee," *Official Journal*, Special Supplement 177 (Geneva 1937), p. 39.

32. *New York Times*, August 13, 1937.

33. Signed at the conclusion of the Shanghai hostilities of that year. In signing the agreement the Chinese delegate declared, without objection by the Japanese, that it did not imply any permanent restriction on the movement of Chinese troops in Chinese territory. W. W. Willoughby, *The Sino-Japanese Controversy and the League of Nations* (Baltimore, Johns Hopkins Press, 1935), p. 357.

34. *The Times*, August 13, 19, 1937.

35. Cf. William C. Johnstone, *The Shanghai Problem* (Stanford University, Stanford University Press, 1937), pp. 249-91; C. G. Fenwick, "The Nine-Power Treaty and the Present Crisis in China," *American Journal of International Law* (Washington), October 1937, p. 671.

movement which forced the Chinese to retire, on November 9.³⁶

The advantage was quickly pressed. By December 7 the Japanese had forced the now demoralized Chinese to fall back to the gates of Nanking, abandoned by three-fourths of the civilian population. The government administrative corps had moved on November 20 to Hankow, to Chungking—and to Changsha.³⁷ With the fall of the capital on December 13, the discipline of the Japanese forces collapsed, and they ran wild for weeks in a disgraceful exhibition of uncontrolled greed and lust.³⁸ Despite a threat by General Iwane Matsui, the Japanese commander, to drive on to Hankow and Chungking, this debacle forced a halt along the Nanking-Wuhu line, where the offensive has been stalled ever since.³⁹ But the Yangtze conquest was rounded off by the capture of Hangchow, capital of Chekiang province, south of Shanghai, on December 24.⁴⁰

THE DRIVE ON THE LUNGHAI RAILWAY

The success of the Japanese arms was now at its zenith.⁴¹ There remained the task of uniting the Japanese forces in the north with those in Central China, a move which would cut the Chinese off from the seacoast except in the extreme south. At this juncture the Chinese, possibly to prevent a rumored large-scale attack on Canton, or possibly because of dissatisfaction with the noncommittal gestures of Han Fu-chu, proceeded to destroy Japanese cotton mills and other property in Tsingtao, Shantung province, valued at \$100,000,000 (U.S.).⁴² The Japanese retaliated by blockading the city and landing troops. The goal of the offensive which followed was the Lunghai railway, China's principal land artery of east-west communication; and the ensuing campaign was conducted chiefly by troops advancing north and south along the Tientsin-Pukow railway toward the junction point at Hsuehchow.^{42a} When the force striking south from

North China, which had taken Tsinan on December 27, was checked by Chinese based on prepared fortifications north of Hsuehchow, the Japanese dispatched columns southward toward the western portion of the Lunghai railway. One drove on Chengchow, where the Lunghai is crossed by the Peiping-Hankow line; another fought its way through south Shansi province in the direction of Tungkwang, at the Honan-Shensi border. The battle front widened to a discontinuous line almost 300 miles in length, roughly parallel with the railway objective. By March 10 the Japanese had reached the Yellow river at several points from which their artillery could fire across at the road.⁴³ They had overrun Shansi and were only 19 miles north of Hsuehchow, although the force sent northward from Nanking along the Tientsin-Pukow railway, approaching Hsuehchow from the south, was halted 86 miles south of that key point.

Yet this seeming triumph was at least partially deceptive. Led by the famous Kwangsi provincial leaders, Li Tsung-jen and Pai Chung-hsi, the defenders in south Shantung showed evidence of real strategical competence for the first time. The Chinese, rather than duplicate the simple frontal resistance which had proved so disastrous at Shanghai, coordinated this with flank attacks and guerrilla warfare on the communication lines of the advancing Japanese—who could only advance along railways and terrain suitable for motorized equipment—and then attacked from the rear.⁴⁴⁻⁴⁵ Such strategy indicated a realization that Japan could only be worn down by prolonged and constant attrition. The wisdom of this policy was demonstrated in April 1938, when a large Japanese detachment at Taierhchwang, its communications cut, found itself without ammunition, motor fuel and food and was forced to retreat northward with heavy losses to Yih sien, where it was again beleaguered. Chinese morale soared with the news of this victory.

Having lost "face" by this important setback, the Japanese immediately began to withdraw forces from other occupied regions in preparation for a smashing offensive against Hsuehchow, which promised to be the largest military operation yet undertaken in the war. This move, however, was accompanied by a recrudescence of guerrilla warfare by Chinese in the immediate vicinity of Peiping, Shanghai, Nanking, Wuhu and other large occupied centers. By taking the Lunghai railway and

36. For an analysis of the Japanese error in not undertaking this maneuver at the outset, cf. "Three Months of the Shanghai War," *Pacific Digest*, January 1938, pp. 65-69.

37. *China Weekly Review*, November 27, 1937, p. 297.

38. Cf. *Militär-Wochenblatt* (Berlin), January 7, 1938, pp. 1762-66; also F. Tillman Durbin, *New York Times*, January 9, 1938.

39. *Ibid.*, December 29, 1937.

40. *Ibid.*, December 25, 1937.

41. Cf. *Journal des Nations* (Geneva), April 9, May 5, 1938.

42. The pillage, which might also have been motivated by a desire for revenge, began on December 19, 1937 and continued until the end of the month. Cf. *China Weekly Review*, January 8, 1938, p. 150.

42a. *Militär-Wochenblatt*, March 11, 1938, pp. 2364-67.

43. *Japan Weekly Chronicle*, March 17, 1938, p. 334.

44-45. Cf. "The Check to Japan: Guerrilla War in China," *The Times*, April 12, 1938; also interviews of Victor Keen with Li Tsung-jen and Pai Chung-hsi, *New York Herald Tribune*, March 30, April 4, 1938.

driving south to Hankow, now the principal Chinese base, the Japanese may unite North China and the Yangtze enclave under a single government. Should they do so, however, they would still be faced with the task of extending their occupation beyond the fringe of vital communication lines they now control, before the economic burden of conquest becomes too crushing.

THE NAVY AND THE BLOCKADE

Although the Japanese navy has played a rôle distinctly secondary to that of the army, its share in the conduct of hostilities has nevertheless been considerable. Naval vessels bombarded the Chinese in Shanghai, and naval planes ranged far inland on war missions. Lacking sufficient troops for an additional campaign, the army has avoided South China. Naval forces, however, have occupied a number of strategically located islands off Hongkong, Macao and Amoy, and have established at least one air base on them.⁴⁶⁻⁴⁷ But for the danger of international complications, they would probably long since have seized the rich island of Hainan, commanding the Indo-China coast.⁴⁸ Carrier-based aircraft have made numerous raids on Canton, with disastrous effects on its commercial life and numerous civilian casualties. They have also bombed Amoy and Swatow, as well as the Canton-Kowloon and Canton-Hankow railways.⁴⁹

More important than these subsidiary operations was the navy's part in hindering the replenishment from abroad of Chinese stocks of military equipment. A "pacific blockade"—proclaimed on August 25 by the commander of the Japanese China fleet—for territory between the mouth of the Yangtze and Swatow⁵⁰ was extended on September 5 to include virtually the entire Chinese coast, from the Manchurian border to Pakhoi in the south.⁵¹ Since Japan, not being legally at war, did not possess the right of a belligerent to intercept shipments of contraband in neutral ships, the blockade was directed against Chinese vessels alone.⁵² While a naval spokesman at Shanghai threatened to pre-

empt such cargoes if carried in non-Chinese craft,⁵³ Tokyo declared that the "peaceful commerce" of third powers would not be molested. This term, however, was not construed to cover foreign vessels specifically employed for the purpose of carrying war supplies to the Chinese.⁵⁴ Apparently reluctant to challenge the doubtful legality of this exception, both the United States and Great Britain took measures to avoid incidents in the blockaded zone.⁵⁵ British shipping was advised that, in the absence of a British warship, Japanese naval officers should be permitted to board ship and verify certificates of registry—a procedure which would tend to prevent use of the British flag as a ruse by Chinese vessels.⁵⁶ Once foreign countries had acquiesced to this extent in the Japanese procedure, Tokyo authorities let it be known that "for the present" there would be no interference with any foreign shipping. This course was probably adopted because it was believed that the volume of military supplies shipped by sea to China, after these government warnings, would be too small to warrant the risk of foreign complications over their seizure.⁵⁷

The number of uncaptured Chinese ports with adequate inland transport facilities is so small that blockade has been easy for Japan. Chinese coast-wise shipping, already disorganized, has been brought to a standstill.⁵⁸ It is estimated that 100,000 fishermen have lost their livelihood because Chinese fishing junks have been shelled and swept from the sea.⁵⁹ Some general trade with Kuomintang China has continued, however, chiefly via British Hongkong, which is now connected with Canton by both rail and road.⁶⁰ Despite numerous bombing raids the Chinese, by unremitting effort, have managed to keep this route open. With the port of Shanghai paralyzed, Hongkong's imports and exports rose rapidly in the later months of

53. *New York Times*, August 27, 1937.

54. Cf. statement of Foreign Minister Koki Hirota, September 3, *Japan Weekly Chronicle*, September 9, 1937, p. 358.

55. For the American measures, cf. Paul B. Taylor, "America's Rôle in the Far Eastern Conflict," *Foreign Policy Reports*, February 15, 1938, pp. 280-81.

56. *The Times*, September 13, 1937. On September 18 a loophole in the blockade was plugged by a declaration that Japan would not recognize subsequent transfers of ships from Chinese to foreign registry as a means of evading seizure. For text, cf. *New York Herald Tribune*, September 19, 1937.

57. Hugh Byas, *New York Times*, September 17, 1937. From time to time reports are received that foreign vessels have been halted and inspected.

58. *Commerce Reports*, September 11, 1937 and succeeding issues.

59. *The Times*, November 26, 1937.

60. Cf. *Japan Times and Mail* (Tokyo), January 8, 1938.

46-47. For list of occupied islands, Cf. *China Weekly Review*, January 8, 1938. Amoy was taken on May 11, 1938.

48. "As Hong-Kong Sees It," *The Times*, November 26, 1937.

49. Cf. *The Economist* (London), January 1, 1938, p. 21.

50. For text of proclamation, cf. *The Times*, August 26, 1937.

51. For text, cf. *Contemporary Japan*, December 1937, p. 566. "Tsingtao and the leased territories of third powers" (Hongkong, Macao and Kwangchowwan) were exempted.

52. Some precedents for interference with the ships of quasi-neutral powers exist, but the weight of authority denies its legality. Cf. Amos S. Hershey, *The Essentials of International Public Law and Organization* (New York, Macmillan, revised edition, 1927), pp. 539-41.

1937.⁶¹ This trade may be virtually cut off at any time by a declaration of war and establishment of a formal blockade, including Hongkong as a port of transshipment. Japanese naval officials are said to have favored such a move, but considerations of general policy have militated against its adoption.

CHINA'S MUNITIONS SUPPLY

Despite the blockade, a stream of munitions continues to flow into China. Although the Kuomintang forces suffer from a deficiency in aircraft, heavy artillery and the more complex and expensive forms of equipment, press reports indicate that the better part of one year's supply of basic war materials is on hand.⁶² The purchase of these supplies was facilitated by the successful conclusion of the economic mission in which Dr. H. H. Kung, then Chinese Minister of Finance, was engaged at the outbreak of hostilities. After concluding an agreement on July 9, 1937 for the sale of silver to the United States⁶³—the proceeds of which have been used to bolster China's foreign exchange position—Dr. Kung negotiated loans with British, French, Swiss and Dutch interests.⁶⁴ A \$50,000,000 long-term credit was also granted by the Skoda munitions works in Czechoslovakia specifically for armaments.⁶⁵ Financed by the export of large quantities of silver⁶⁶ and by these operations, munitions shipments have arrived in China from Czechoslovakia, Germany, Italy, the U.S.S.R., France, the United States and Great Britain.⁶⁷ Be-

sides supplying airplanes, which are apparently flown across the border from Siberia, the Soviet Union has furnished pilots and instructors for the Chinese air force. Some of the latter have replaced Italians who were withdrawn after Italy adhered to the German-Japanese anti-Communist pact on November 6, 1937.⁶⁸ German military advisers under General von Falkenhausen, however, remain with the Chinese, and Germany furnishes a high proportion of China's munitions imports.

Much the greater portion of the imported war material reaches the Chinese forces through Hongkong. Motor trucks carry smaller quantities over difficult land routes. One of these, along which roads are now being built, follows caravan trails across the desert of Sinkiang (Chinese Turkestan) and Kansu, since the best of the Soviet-Chinese connections, through Outer Mongolia via Kalgan, is now in Japanese hands.⁶⁹ Another extends northward through mountainous Yunnan from the Indo-Chinese frontier, over a region traversed only by a French narrow-gauge railway and a new motor road. Imports continue by this route, despite reports that the French, threatened by Japan with the seizure of Hainan or retaliatory action against Indo-China, imposed an embargo on arms shipments across this boundary in October 1937.⁷⁰ The Chinese government, moreover, is building a road over equally difficult terrain to the Burma border.⁷¹ Yet, should the Hongkong-Canton gateway be closed, it is highly improbable that the Chinese forces could be very adequately supplied over these lengthy and rather primitive overland routes.

WAR ECONOMY IN CHINA AND JAPAN

These munitions purchases, which according to foreign financial experts reached a total of \$100,000,000 U.S. currency by January 1, 1938, with \$25,000,000 more on order, have until recently had little effect on the stability of China's finances.⁷² Indeed, foreign and internal loan issues have been regularly serviced; Chinese customs collections in 1937, which yielded the government \$129,100,000

piled from monthly lists in State Department, *Press Releases*.) In the same period Britain's share appears to have been relatively small: actual exports of war materials to China amounted to £134,338. Great Britain, House of Commons, *Parliamentary Debates*, Vol. 331, p. 641.

68. *China Weekly Review*, February 5, 1938, p. 274; January 8, 1938, p. 168.

69. *The Times*, January 28, 1938.

70. *Le Temps* (Paris), November 19, 1937; *New York Times*, November 19, 1937; *New York Herald Tribune*, April 7, 1938.

71. *China Weekly Review*, January 8, 1938, p. 144.

72. *New York Times*, February 20, 1938; T. A. Bisson in "China's Financial Progress," *Foreign Policy Reports*, April 15, 1938, pp. 35-36.

61. For detailed statistics, cf. *Board of Trade Journal* (London), March 24, 1938, p. 422; *Commerce Reports*, January 22, 1938, p. 75; for British trade with Hongkong, cf. Great Britain, House of Commons, *Parliamentary Debates*, Vol. 331, p. 1077.

62. *The Times*, March 30, 1938; *New York Times*, February 7, 1938.

63. Text in *Federal Reserve Bulletin* (Washington), August 1937, p. 710.

64. These loans were not negotiated for direct war purposes, but to strengthen the foreign currency reserves of China, consolidate the public debt and finance Chinese railroad construction. It is impossible to determine to what extent these credits have actually been made available to China.

65. Interview with Dr. Kung, *New York Times*, August 18, 21, 1937.

66. Imports of "treasure" into Hongkong (presumably originating in China) rose from 72,728,408 Hongkong dollars in 1936 to 386,448,955 Hongkong dollars in 1937. In 1937 exports of "treasure" from Hongkong amounted to 395,226,524 Hongkong dollars. *Board of Trade Journal*, March 24, 1938, p. 422.

67. For an indication of the volume of this traffic in January 1938, cf. *China Weekly Review*, March 12, 1938, p. 38. The United States was a moderately large supplier, although its arms exports to China declined from \$7,666,540 in 1936 to \$4,267,324 in 1937. (Figures compiled from original records of United States Department of Commerce, Washington, D. C.) Transport conditions permitting, a larger volume of American arms exports may probably be expected in the future. In the eight months June 1937-January 1938, licenses were granted for the export of \$7,410,726 of armaments to China. (Com-

Chinese currency after loan payments had been deducted, were at their highest point in recent years;⁷³ and Chinese cash reserves abroad at the beginning of this year were estimated at \$300,000,000 U.S. currency.⁷⁴ The declaration of an anticipated moratorium, partial or complete, on the service of government loans will ease the strain on China's financial reserves. Thus, despite its small resources abroad, the economy of an agricultural nation like China, depending only slightly on foreign trade, is not necessarily more vulnerable in the present crisis than that of its highly industrialized opponent.

On the other hand, certain adverse developments have appeared, and their effect will probably grow progressively more severe as the war continues. Deprived of customs revenue from occupied areas, the Chinese government's average monthly collections from this source dropped from \$37,000,000 Chinese currency in the first seven months of 1937 to \$16,000,000 in the last five.⁷⁵ The money value of legal-tender bank notes in circulation has slowly increased, rising from \$1,241,962,000, Chinese, in December 1936 to \$1,639,098,000 a year later.⁷⁶ Because of transport and marketing difficulties, prices of consumption goods have risen, while those of agricultural and export commodities have declined.⁷⁷ Chinese authorities are reported concerned with the need for reviving exports, which are hindered by lack of transportation facilities, in order to preserve dwindling foreign exchange assets.⁷⁸ For the same purpose, the Chinese government, on March 14, 1938, ordered the centralization of all exchange operations in Hankow—a measure which temporarily disrupted Chinese currency quotations abroad. This move was apparently adopted to parry the threat to Chinese currency and foreign exchange presented by the issuance of inconvertible notes by the new, Japanese-controlled reserve bank at Peiping.⁷⁹ These notes were being

exchanged by the Japanese for the Chinese bank notes circulating in the conquered areas, and the Chinese notes were then converted into foreign exchange—thus strengthening Japan's exchange resources at the expense of the Chinese currency reserves.⁸⁰ The Chinese Ministry of Finance, moreover, has announced that a defense loan of \$500,000,000, Chinese, would be floated on May 1, 1938, although the results from flotation of a similar issue in September 1937 were not particularly satisfactory.⁸¹ These developments all indicate a growing economic stringency, but there is no sign of financial collapse in the near future.

Japan, too, is feeling the burden of wartime economy, more particularly since it started hostilities under the strain of a sizeable unfavorable balance of merchandise trade, which for the year 1937 amounted to 607,759,000 yen.⁸² Since the outbreak of the conflict, serious financial and economic problems have arisen. At home there has been a notable increase in the issue of bank notes. Prices are definitely higher, although for many workers the rise in living costs is largely offset by greater earnings.⁸³ Commodity shortages and the enforced rationing of stocks are harbingers of a curtailed standard of living.⁸⁴ The whole gradual inflationary process, which has thus far been kept within bounds, is chiefly the consequence of a series of unbalanced budgets since 1931. Borrowing to cover deficits has raised the national debt from 5,900,000,000 yen in that year to 11,893,000,000 at the end of 1937.⁸⁵ For the fiscal year beginning April 1, 1938 the regular budget is fixed at 2,867,797,000 yen, of which about 690,000,000 will be borrowed.⁸⁶ This total, however, is far outweighed by war expenditures, which are almost entirely financed by loans. In 1937 the Diet appropriated 2,581,700,000 yen for such expenses, but only 1,500,000,000 yen

80. Cf. *Far Eastern Survey* (New York), May 4, 1938, p. 108. The new regulations also tend to restrict the flight of capital from China.

81. *The Times*, April 25, 26, 1938; A.P. dispatch, *New York World-Telegram*, April 22, 1938. Many wealthy Chinese have large foreign currency deposits in foreign banks in the foreign concessions and abroad, which are beyond reach of the Chinese government. It is hoped that these will be attracted by an offer of bonds payable in customs gold units, sterling and American dollars.

82. Total for Japan proper. *Oriental Economist*, February 1938, p. 87; J. C. deWilde, "Can Japan Be Quarantined?" *Foreign Policy Reports*, December 1, 1937.

83. For statistical data, cf. Mitsubishi Economic Research Bureau, *Monthly Circular* (Tokyo), March 1938, pp. 2, 27.

84. *Ibid.*, April 1938, pp. 1, 3, 16, 17; *Japan Weekly Chronicle*, Commercial Supplement, April 14, 1938, p. 131.

85. *Japan Weekly Chronicle*, January 20, 1938, p. 80. The figure at the beginning of April 1938 was 12,189,000,000 yen. Cf. "Japan's War Economy," *Manchester Guardian Weekly*, April 8, 1938, p. 270.

86. *Oriental Economist*, January 1938, p. 4.

73. *Oriental Economist*, February 1938, p. 74.

74. Much of this must be kept intact as a reserve for Chinese national currency.

75. Cf. statement of Dr. H. H. Kung, *Pacific Digest*, March 1938, p. 49, quoted from *Ta Kung Pao* (Hankow), January 18, 1938.

76. *Chinese Economic and Statistical Review* (Shanghai), January 1938, p. 10.

77. Cf. W. Y. Lin, "The Prospects of the Chinese Exchange," *China Forum* (Hankow), March 19, 1938, pp. 133-38. This article contains an interesting analysis of the Chinese international balance of payments for 1937. For an official Japanese estimate of China's foreign exchange reserves which is far less sanguine, cf. *Japan Weekly Chronicle*, February 17, 1938, p. 207.

78. *Commerce Reports*, April 23, 1938, p. 364.

79. For text of Chinese Finance Ministry announcement, cf. *New York Herald Tribune*, March 15, 1938.

of "China incident bonds" had been issued by March 20, 1938.⁸⁷ To the balance the Japanese Parliament has voted to add a gigantic war budget of 4,850,000,000 yen for the current fiscal year, of which 4,450,000,000 yen is to be borrowed.⁸⁸ Thus the prospective increase in the Japanese public debt before April 1939—6 billion yen or more—practically equals the total increase in the debt since 1931. Grave doubts have been expressed regarding the ability of even an economy as closely controlled as that of Japan to absorb so huge an increment, notwithstanding the fact that savings and liquid funds created by war expenditures are perforce re-invested in government bonds. The problem is the more acute because of the simultaneous investment of large amounts of capital in heavy industry in Japan and Manchoukuo.

Still more pressing is the task of maintaining foreign exchange stability. Vitally dependent on a steady inflow of war materials, Japan must keep the yen at the present level (approximately 29 cents) if the cost of these materials to the Japanese is not to skyrocket. Since large-scale credits abroad seem unobtainable, exports of merchandise and gold must consequently be sufficient to pay for essential imports. During 1937 the gold holdings of the Bank of Japan were revalued; an emergency reserve of 801,000,000 yen was retained; and gold valued at not less than 846,000,000 yen was shipped abroad.⁸⁹ Japan must now attempt to restrict its imports to the level of exports of commodities and of newly mined gold, production of which will, it is hoped, be raised from a monthly average of 15 million yen in 1937 to one of 20 million in 1938.⁹⁰

By limiting imports chiefly to war necessities, through the establishment of import controls and reduction of domestic consumption, a marked diminution in both the value of imports and the unfavorable trade balance has been temporarily attained. In the first quarter of 1938 imports declined in value by 36½ per cent, while exports decreased only 17½ per cent in comparison with the first three months of 1937. The unfavorable trade balance, only 65,700,000 yen, was 257,000,000 yen less than it had been in the first quarter of 1937.⁹¹

87. *Ibid.*, March 1938, p. 129. As war industries reach their maximum production, the monthly rate of expenditure is expected to increase.

88. *Japan Weekly Chronicle*, March 17, 1938, p. 332.

89. Official gold export figures are no longer published in Japan, but gold valued at \$262,464,000 was shipped to the United States from that country in 1937. *Federal Reserve Bulletin*, April 1938, pp. 326, 327.

90. Interview with Seihin Ikeda, *Christian Science Monitor*, April 5, 1938; *Monthly Circular*, February 1938, p. 20.

91. *Japan Weekly Chronicle*, Commercial Supplement, April 7, 1938, p. 122.

But this policy, although it permits war industries to boom, definitely affects the prospects for future exports as well as the standard of living. Faced by raw material shortage as the huge reserves accumulated prior to the war are exhausted, increasing production costs, and unofficial boycott movements abroad, Japan's export and consumer industries are losing ground. Expansion of the textile industry has been halted; imports of raw cotton are sharply restricted; and 30 per cent of staple fiber must be mixed with all cotton goods for domestic use.⁹²

The first signs of the drastic effects of these import restrictions are already beginning to appear. In recent weeks the scarcity of cotton and virtually all other commercial raw materials has forced Japan to resume purchases in the world market. Concurrently, the outflow of gold to the United States, which had ceased in January and February 1938, has once more begun. Shipments valued at \$37,900,000 were reported in March and April.⁹³

Thus Japan's attempt to prevent serious disequilibrium in its international accounts—the weak point in the Japanese home front—has by no means been successful. Nor is it likely that the situation can be fundamentally improved as long as the war continues. By multiplying measures of arbitrary governmental control, in the pattern of modern Germany, Japan can doubtless prevent the depreciation of the yen if it chooses to do so. But the prolongation of hostilities will force Japan to make new inroads on its foreign investment and gold reserves, which have already been greatly reduced in the course of the past year.

FORGING THE NEW CHINA

Formally committed against annexing territory in China or dealing with the government of Chiang Kai-shek, Japan has been forced to take steps to fill the administrative vacuum in the areas behind its army's lines. Scores of provisional peace preservation commissions have consequently been established in towns and districts to carry on the essential functions of local government, replacing officials who have fled or perished.⁹⁴ On a larger scale, the same device has been used to institute indirect rule over the conquered areas. Thus, five hundred Japanese-selected Mongols met at Kweisui, capital of Suiyuan province, where on October

92. "Official Control in the Cotton Industry," *Monthly Circular*, March 1938, pp. 12-15.

93. Eliot Janeway, *New York Times*, May 1, 1938.

94. Kokushi Kishida, "Notes on a North China Trip," *Contemporary Japan*, March 1938, p. 680. Over thirty were in existence in the three central provinces of Kiangsu, Chekiang and Anhwei by March 6. *Japan Weekly Chronicle*, March 10, 1938, p. 306.

28, 1937 they formed a "Federated Autonomous Government of Mongolia"—supposedly conceived in the great Mongol spirit of Genghis Khan and dedicated to the anti-Communist struggle and a "great Asia under the aegis of Japan."⁹⁵ Behind the facade, Japanese army advisers pull the strings; the Peiping-Suiyuan railway is operated by the Japanese-speaking staff of the South Manchuria Railway; and the new government bank is administered by Japanese officials.⁹⁶⁻⁹⁷

Much the same formula was followed in establishing the "Provisional Government of the Chinese Republic" at Peiping on December 14, 1937, under the leadership of Wang Keh-min and Tang Er-ho, ancient and obscure politicians of the notorious Anfu clique. The new government, which has adopted the flag and the political symbolism of pre-Kuomintang China and restored the name Peking to its capital, is expected to become the vehicle for Japanese domination of the conquered territories of China. When circumstances permit, this régime is scheduled to absorb the similar "Reformed Government of the Republic of China," established by the Japanese at Nanking on March 28, 1938.⁹⁸ The failure to secure any but nonentities to install in the seats of power under the new governments bears witness to the strength of Chinese nationalist sentiment. Politicians of real importance have thus far been deterred, by inclination or fear, from association with the new puppet régimes.⁹⁹

Utilizing these régimes, the Japanese are already taking steps to transform North China into an economic appanage of their own. The China Development Corporation, a branch of the South Manchuria Railway Company, is undertaking railroad development and other enterprises. Iron and coal production is being increased to help relieve the raw material and foreign exchange stringency.¹⁰⁰ Japanese public utilities are preparing to enter the territory. Farmers are to be forced to raise crops which will supplement and not compete with the produce of Japanese peasants.¹⁰¹ Vast development schemes have been planned but remain mere blue-prints because of scarcity of capital. Lack of foreign exchange, coupled with the desire for financial control, have been important considerations in the decision to establish a Federal Reserve Bank at Peiping whose currency

is linked to the yen and partially backed by a loan of 100,000,000 yen from a Japanese banking syndicate.¹⁰²

At certain points Japanese activities of this character inevitably infringe upon the interests of third powers. In such cases Japan, while disclaiming any desire to prejudice these interests, has shown scant regard for them in matters involving Japanese hegemony in China. The first important act of the new North China régime—on December 15, 1937—was to seize the customs offices at Tientsin and Chinwangtao, and temporarily to retain the revenues pledged for the service of foreign loans.¹⁰³⁻¹⁰⁴ Treaty stipulations providing for tariff equality throughout China have been violated by revision of duties in the north, where the provisional government now enforces a schedule of reduced rates collectible in the new North Chinese currency and clearly designed to benefit Japanese exports.¹⁰⁵ The new governments are also attempting to gain control of the administration of the salt gabelle, China's second largest source of revenue.¹⁰⁶

The clash of Japanese and foreign interests has been particularly acute in Shanghai, where the victorious military commander, General Iwane Matsui, intimated on November 11 that the Japanese would exercise control over the entire city by right of conquest.¹⁰⁷ Despite conciliatory statements from Tokyo with regard to preservation of the rights of third parties, the Japanese have applied pressure on the authorities of the International Settlement, the customs administration and the Chinese in order to displace British dominance in the Settlement and Chinese authority throughout the whole region. While acceding in part to demands that anti-Japanese activities and organizations within the foreign areas be suppressed,¹⁰⁸⁻¹⁰⁹ the Shanghai Municipal Council and the authorities of the French Concession, backed by the governments involved, have resisted the more extreme Japanese claims in other fields. Foreign troops have on the whole maintained their control in their de-

102. The Bank commenced operations on March 10, 1938 and immediately began, with government assistance, to make its notes the sole currency in the territory of the "Provisional Government of the Chinese Republic." *Ibid.*, Commercial Supplement, March 17, 1938, p. 90.

103-104. *Ibid.*, December 23, 1937, p. 30.

105. For text of new schedule, cf. *Board of Trade Journal*, March 3, 1938, p. 317; Great Britain, House of Commons, *Parliamentary Debates*, Vol. 333, No. 81, p. 1388.

106. *Le Temps*, March 10, 1938; *China Weekly Review*, March 12, 1938, p. 30; *Christian Science Monitor*, March 8, 1938.

107. *China Weekly Review*, November 20, 1937, p. 265; *Pacific Digest*, March 1938, pp. 104-105.

108-109. *Japan Weekly Chronicle*, November 25, 1937, p. 694; *China Weekly Review*, November 27, 1937, p. 300.

95. For contrasting versions of the birth of this new "nation," cf. *Japan Weekly Chronicle*, November 4, 1937, p. 603; *New York Herald Tribune*, October 29, 30, 1937.

96-97. *The Times*, April 4, 1938.

98. *Japan Weekly Chronicle*, March 31, 1938, p. 397.

99. Cf. *New Statesman and Nation*, January 15, 1938, p. 73.

100. *The Economist*, April 16, 1938, p. 141.

101. *Japan Weekly Chronicle*, February 10, 1938, p. 174.

fense zones, although minor clashes with the Japanese military have not been infrequent. The Settlement police have continued to function under difficult circumstances, although their authority had been overridden in the northern area of the city.

Japan's intention to dominate the International Settlement was clearly revealed on January 4, 1938, when representatives of the army, navy and foreign office formally demanded that the Municipal Council increase the number of Japanese members of the municipal police force; raise their status and authority; and "place Japanese in controlling positions in all the important organs of the Municipal Council."¹¹⁰ Britain, France and the United States are strongly supporting the Council in its resistance to Japanese efforts in this matter. In an attempt at partial, temporary appeasement, the Japanese have been granted additional police posts, a greater general voice in Settlement affairs, and other concessions.¹¹¹ In an election held on March 26, however, the Japanese did not succeed in increasing their representation on the Municipal Council, the Settlement's governing body, and therefore—despite their presumed control over the Chinese members—they do not yet command a legislative majority.¹¹² But in the surrounding Chinese urban area, a puppet government has been established, and the Japanese are seeking to extend their hold over all Chinese residents. Terrorism has been employed by both pro-Japanese and anti-Japanese elements.

These developments, in addition to the loss of foreign lives and destruction of property during hostilities, have given rise to a host of claims for damages and diplomatic representations or protests.¹¹³ Negotiations have been conducted with Tokyo on such issues as the control of customs; replacement of Chinese by Japanese censors in the postal, telegraph and cable services of the International Settlement; Japanese restrictions on the right of access to foreign-owned property and warehouses long after hostilities have ceased; and alleged importation of Japanese goods at Japanese wharves without payment of duty, to the detriment of the commerce of other powers.¹¹⁴ On the

first of these points—the customs issue—an agreement was reached on May 2, 1938 between Great Britain and Japan, apparently with the tacit approval of the United States and France. The new arrangement assures the use of the duties collected in cities under Japanese control for service of the foreign loans secured on the customs, pending clarification of the status of the occupied territory.¹¹⁵

Defending similar or identical interests, Britain, France and the United States have ordinarily adopted a policy of parallel action in these matters—a move which has probably restrained the hard-pressed Japanese from taking more drastic steps in situations involving third powers. Negotiations on the basic issues will doubtless be prolonged until the outcome of the war is reasonably certain. With Japan victorious, foreign powers will not be likely to challenge Japan's assumption of authority in the only way in which it can, apparently, be effectively challenged—by threat of force. Even assuming a Chinese victory, the vestigial privileges of the Occidental nations in China are likely to suffer further diminution at the hands of the central government.¹¹⁶ Only in the case of a stalemate is it probable that the Western powers will be able to maintain their position.

Notwithstanding the possibility of a sudden collapse of organized Chinese resistance, the prospects for a stalemate appear to be increasing. Even if the Chinese government should be driven back from the coast and from Hankow, it may conceivably succeed in organizing an almost self-sufficient semi-military state in the unconquered interior which would be an important source of resistance to Japan. And whatever the fate of the Chiang Kai-shek régime, Japan's civilian and military leaders openly state that it will be years before Chinese opposition can be completely eradicated from the areas now held by its armies.¹¹⁷ Meanwhile, the first flush of war enthusiasm in Japan is being displaced by the grim realization that the nation faces a period of extreme economic and political strain. The local incident of July 7, 1937 has thus become the prelude to a fateful war in the Far East.

110. *North-China Herald*, January 12, 1938, p. 49.

111. Cf. Great Britain, House of Commons, *Parliamentary Debates*, Vol. 333, No. 80, p. 1174; *New York Herald Tribune*, March 22, 1938.

112. The Council is at present composed of five Britons, five Chinese, two Americans and two Japanese. Cf. *Japan Weekly Chronicle*, March 31, 1938, p. 399; *Christian Science Monitor*, April 2, 1938.

113. Up to December 30, 1937, British claims for property damage and looting in Shanghai already numbered 102. Great Britain, House of Commons, *Parliamentary Debates*, Vol. 332, No. 63, p. 730.

114. Cf. British government statements, Great Britain, House of Commons, *Parliamentary Debates*, Vol. 329, No. 27, pp. 1197, 2050; Vol. 331, pp. 395, 641, 643, 644; Vol. 332, No. 58, p. 18; Vol. 333, No. 78, p. 827.

115. Cf. text of communiqué, *The Times*, May 3, 1938.

116. Cf. William W. Lockwood, "The Fall of Shanghai," *Amerasia* (New York), January 1938, pp. 503-10; William C. Johnstone, "Shanghai's Uncertain Future," *ibid.*, May 1938; "Tragic Shanghai," *The Times*, March 15, 17, 1938.

117. Cf. *Japan Weekly Chronicle*, February 3, 1938, p. 138; March 17, 1938, p. 334.